

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

FONDA, ISLAND & BRIGGS LAKE  
JOINT WATER AUTHORITY

REPORT ON AUDIT OF  
FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

**FONDA, ISLAND & BRIGGS LAKE  
JOINT WATER AUTHORITY**

**AUTHORITY BOARD**

Kathleen Carney  
Don Davis  
Howard Harrington  
Dennis Palmer  
Stuart Riley  
Peter Robertson

**WATER AUTHORITY ATTORNEY**

Dykema Gossett, PLLC

**WATER AUTHORITY AUDITORS**

Pfeffer, Hanniford & Palka  
Certified Public Accountants

## TABLE OF CONTENTS

### PAGE NUMBER

#### INDEPENDENT AUDITORS' REPORT

#### MANAGEMENT DISCUSSION AND ANALYSIS

6

#### FINANCIAL STATEMENTS

Statement of Net Assets

11

Statement of Revenues, Expenses and Changes in Net Assets

12

Statement of Cash Flows

13

#### NOTES TO FINANCIAL STATEMENTS

15

#### SUPPLEMENTARY INFORMATION

Schedule of Operations - Budget and Actual

23



**PFEFFER ■ HANNIFORD ■ PALKA**  
*Certified Public Accountants*

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February 20, 2006

Fonda, Island & Briggs Lake Joint Water Authority  
P.O. Box 638  
Brighton, Michigan 48116

**INDEPENDENT AUDITORS' REPORT**

Honorable Board of Trustees:

We have audited the accompanying financial statements of Fonda, Island & Briggs Lake Joint Water Authority as of and for the year ended December 31, 2005. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the government activities of Fonda, Island & Briggs Lake Joint Water Authority as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 6 and 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fonda, Island & Briggs Lake Joint Water Authority's basic financial statements. The supplementary information presented for purposes of additional analysis is not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

*Pfeffer, Hanniford & Palka, P.C.*

**PFEFFER, HANNIFORD & PALKA**  
**Certified Public Accountants**

MANAGEMENT  
DISCUSSION  
AND ANALYSIS

## Management Discussion and Analysis

### December 31, 2005

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Within this section of the Fonda, Island & Briggs Lake Joint Water Authority's financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2005. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

#### Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

#### ***Government-wide Financial Statements***

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Revenues, Expenses and Changes in Net Assets which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a water system, only one fund is maintained. Thus, there are no fund financial statements prepared by the Authority.

#### ***Notes to the financial statements***

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

#### ***Other information***

In addition to the financial statements and accompanying notes, this report also presents certain supplementary information. Other supplementary information includes a budget to actual reconciliation for current year Authority operations.

### Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$1,750,902. This is a \$69,579 decrease over last year's net assets of \$1,820,481.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

#### **Summary of Net Assets**

	<u>12/31/2005</u>	<u>12/31/2004</u>
Current and other assets	\$ 197,845	\$ 207,903
Capital assets, net	<u>1,561,139</u>	<u>1,620,743</u>
Total assets	<u>1,758,984</u>	<u>1,828,646</u>
Current liabilities	<u>8,082</u>	<u>8,165</u>
Net assets:		
Invested in capital assets	1,561,139	1,620,743
Unrestricted	<u>189,763</u>	<u>199,738</u>
Total net assets	<u>\$ 1,750,902</u>	<u>\$ 1,820,481</u>

Revenues from operations declined as summertime usage declined due to an unusually cool and rainy summer. Operating expenses increased slightly over the prior year, as general repairs and maintenance were performed on the system. Additional staking charges of \$5,520 were incurred due to Green Oak Township's installation of a sewer system adjacent to Fonda Island Briggs Lake water lines.

Revenues from tap-in fees were also somewhat less than expected due to market conditions affecting the schedule of new development hook ups. As a result, net income decreased for the year ended December 31, 2005.



### Summary of Changes in Net Assets

	<u>12/31/2005</u>	<u>12/31/2004</u>
Operating revenues	\$ 100,546	\$ 104,430
Operating expenses	<u>184,845</u>	<u>172,536</u>
Operating (loss)	(84,299)	(68,106)
Non-operating revenues, net	<u>14,720</u>	<u>25,877</u>
Net (loss)	(69,579)	(42,229)
Beginning net assets	<u>1,820,481</u>	<u>1,862,710</u>
Ending net assets	<u>\$ 1,750,902</u>	<u>\$ 1,820,481</u>

### Capital and Debt Administration

The Authority did not acquire or dispose of any capital assets during the year ended December 31, 2005.

As of December 31, 2005, the Authority does not have any outstanding long-term debt in the form of bonds or loans payable.

### Economic Factors and Next Year's Goals

The Authority's financial outlook continues to remain steady. The population in the service area is expected to remain constant to slowly rising, with several new hookups added during the fiscal year. The Authority is unencumbered by debt.

There was a small decline in revenue experienced in the fiscal year December 31, 2005 due to numerous residents shutting off their water service to live in Florida for part of the year. New connections are expected in 2006.

### Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have further questions about this report or request additional information, please contact the Authority.

FINANCIAL  
STATEMENTS

FONDA, ISLAND & BRIGGS LAKE  
JOINT WATER AUTHORITY  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2005

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 55,057
Accounts receivable - billings	25,885
Prepaid expense	<u>3,769</u>

Total current assets		\$ 84,711
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CURRENT ASSETS - RESERVED

Cash and cash equivalents		113,134
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CAPITAL ASSETS

Land	125,000
Water system	2,201,885
Improvements	154,001
Office equipment	38,005
Expansion - Park/Parent Drive	<u>21,995</u>
	2,540,886
Less: accumulated depreciation	<u>(979,747)</u>

Capital assets, net		<u>1,561,139</u>
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Total assets		1,758,984
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LIABILITIES

CURRENT LIABILITIES

Accounts payable	7,404
Payroll taxes payable	<u>678</u>

Total current liabilities		<u>8,082</u>
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NET ASSETS

NET ASSETS

Invested in capital assets	1,561,139
Unrestricted	<u>189,763</u>

Total net assets		<u>\$ 1,750,902</u>
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The accompanying notes are an integral part of the financial statements

FONDA, ISLAND & BRIGGS LAKE  
JOINT WATER AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2005

OPERATING REVENUES		
Water billings	\$ 71,926	
Hook-up fees	<u>28,620</u>	
Total revenues		\$ 100,546
OPERATING EXPENSES		
Advertising	233	
Accounting	8,325	
Bank charges	483	
Billing expense	3,660	
Chemicals	4,673	
Depreciation	59,604	
Dues and subscriptions	414	
Engineering	20,989	
Insurance	16,366	
Legal	7,955	
Office expense	2,512	
Per diem	5,575	
Repairs and maintenance	22,530	
Taxes - payroll	1,439	
Telephone	2,296	
Utilities	7,652	
Wages - office	2,558	
Wages - system operator	16,068	
Water testing fees	<u>1,513</u>	
Total operating expenses		<u>184,845</u>
Operating (loss)		(84,299)
NON-OPERATING REVENUES		
Miscellaneous and reimbursement income	12,544	
Interest income - from cash and cash equivalents	<u>2,176</u>	
Total non-operating revenues		<u>14,720</u>
Net (loss)		(69,579)
NET ASSETS, JANUARY 1, 2005		<u>1,820,481</u>
NET ASSETS, DECEMBER 31, 2005		<u>\$1,750,902</u>

The accompanying notes are an integral part of the financial statements

FONDA, ISLAND & BRIGGS LAKE  
JOINT WATER AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2005

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES

Receipts from customers	\$ 100,546
Payments to vendors	(108,950)
Payments to employees	(18,626)
Miscellaneous income	<u>12,544</u>

Net cash from (used in) operating activities \$ (14,486)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received from cash and cash equivalents	<u>2,176</u>
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Net (decrease) in cash and cash equivalents (12,310)

CASH AND CASH EQUIVALENTS AT JANUARY 1, 2005 180,501

CASH AND CASH EQUIVALENTS AT DECEMBER 31, 2005 \$ 168,191

RECONCILIATION OF OPERATING (LOSS)

TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating (loss)	\$ (84,299)
Miscellaneous income	12,544
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation expense	59,604
Changes in assets and liabilities	
Receivables, net	(2,077)
Prepaid expenses	(175)
Accounts and other payables	<u>(83)</u>

Net cash provided (used) by operating activities \$ (14,486)

The accompanying notes are an integral part of the financial statements.

NOTES  
TO  
FINANCIAL  
STATEMENTS

FONDA, ISLAND & BRIGGS LAKE  
JOINT WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 1 - DESCRIPTION OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF ENTITY - The water Authority was formed as a corporate authority pursuant to the provisions of Act 196, Public Acts of 1952, as amended. Its primary purpose is to create, own, operate and maintain the water system. The system was constructed by the State of Michigan at no cost to the users. The expenses after completion of construction are to be incurred by the users. The accounts of Fonda, Island & Briggs Lake Joint Water Authority are organized as one proprietary fund (enterprise fund) which is considered a separate accounting entity.

A. SIGNIFICANT ACCOUNTING POLICIES

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an Enterprise Fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net assets, revenues, and expenses. Enterprise funds account for activities:

1. that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or
2. that are required by laws or regulations that the activity's costs of providing service, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar reviews; or
3. that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

B. MEASUREMENT FOCUS

The financial activities of the Authority are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net assets; revenues are recorded when earned, and expenses are recorded when liabilities are incurred.

C. CASH AND CASH EQUIVALENTS

The Authority considers its deposits and restricted deposits and investments held with maturities of three months or less are considered to be cash equivalents.

D. CAPITAL ASSETS

Capital assets are stated at cost. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets, which range from 5 to 40 years for equipment and 5 to 40 years for buildings, structures, and improvements.



FONDA, ISLAND & BRIGGS LAKE  
JOINT WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 1 - DESCRIPTION OF ENTITY AND SUMMARY OF  
SIGNIFICANT ACCOUNTING POLICIES (continued)

E. CONSTRUCTION-IN-PROGRESS

The costs of acquisition and construction of major plant and equipment is recorded as construction-in-progress. As facilities are accepted by the Authority and become operative, they are transferred to the facilities and improvements or machinery and equipment accounts and depreciated in accordance with the Authority's depreciation policies. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

F. CAPITALIZATION OF INTEREST

A portion of the interest cost incurred on capital projects is capitalized on assets that require a period of time for construction or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets.

G. PREMIUM AND ISSUANCE COSTS

Bond discount, premium, and issuance costs are amortized over the term of the related bonds. No bonds were outstanding or issued during the year ended December 31, 2005.

H. INCOME TAXES

As government agency, the Authority is exempt from both federal income taxes and Michigan Single Business Tax.

NOTE 2 - MANAGEMENT'S ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - BUDGETARY DATA

The Authority follows these procedures in establishing its budgetary data:

1. The Authority prepares the annual operating budget and submits copies to the Brighton and Green Oak Township Boards.
2. Public hearings are conducted to obtain Authority customers' comments.
3. The budget is legally adopted by approval of the members of the Authority's board.
4. Rate increases must be approved by the members of the Authority's board.

FONDA, ISLAND & BRIGGS LAKE  
JOINT WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 4 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit union, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The investment policy adopted by the Board is in accordance with Act 196 PA 1997. The Authority deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured        \$	162,083    \$	162,108
Uninsured and uncollateralized	<u>6,108</u>	<u>6,108</u>
Total deposits	<u>\$ 168,191</u>	<u>\$ 168,216</u>

**NOTE 5 - ACCOUNTS RECEIVABLE**

The Authority's billing periods are as follows:

February	through	April
May	through	July
August	through	October
November	through	January

Thus, accounts receivable includes both billed receivables through October 2005 and an estimate of the November and December 2005 billings. The following is a schedule of the Authority's accounts receivable:

<u>Estimated Unbilled</u>	<u>Current</u>	<u>Over 30 Days</u>	<u>Over 90 Days</u>	<u>Total</u>
<u>\$ 12,171</u>	<u>\$ 0</u>	<u>\$ 13,714</u>	<u>\$ 0</u>	<u>\$ 25,885</u>

FONDA, ISLAND & BRIGGS LAKE  
JOINT WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 6 - CAPITAL ASSETS

Property, plant and equipment are recorded at cost. The cost of the water system and expansion is depreciated over a 50 year period using the straight-line method. The cost of office equipment and improvements is depreciated over 5 to 10 years, also using the straight-line method. Depreciation for 2005 totaled \$59,604 and is reported as an operating expense on the Statement of Revenues, Expenses and Changes in Net Assets.

The cost of the original water system from the State of Michigan, Department of Transportation, was as follows:

Land cost		\$ 125,000
Construction costs		
Water mains	\$ 1,116,427	
Water tank	264,389	
Water connection	226,566	
Water service	210,821	
Building site and equipment	183,436	
Well pumps	117,628	
Abandoned private wells	52,860	
Legal fees	<u>29,758</u>	
Total construction cost		<u>2,201,885</u>
Total original water system cost		<u>\$ 2,326,885</u>

FONDA, ISLAND & BRIGGS LAKE  
JOINT WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 7 - STATEMENT OF CASH FLOWS

Pursuant to the Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year. Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The direct method was utilized to present cash flows from operations. The following summarizes beginning and ending cash and cash equivalents:

	<u>JANUARY 1, 2005</u>	<u>DECEMBER 31, 2005</u>
Current assets		
Cash	\$ 69,358	\$ 55,057
Reserved current		
Cash and cash equivalents	<u>111,143</u>	<u>113,134</u>
Total cash and cash equivalents	<u>\$ 180,501</u>	<u>\$ 168,191</u>
Reserved cash at beginning of year		\$ 111,143
Reserved interest on reserve		<u>1,991</u>
Reserved cash at end of year		<u>\$ 113,134</u>

NOTE 8 - CAPITAL ASSETS

	<u>Balance 1/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/05</u>
LAND	\$ 125,000	\$	\$	\$ 125,000
OFFICE EQUIPMENT	38,005			38,005
EXPANSION	21,995			21,995
WATER SYSTEM	2,201,885			2,201,885
IMPROVEMENTS	<u>154,001</u>			<u>154,001</u>
Totals	2,540,886			2,540,886
ACCUMULATED DEPRECIATION				
Water and sewer system	<u>(920,143)</u>	<u>(59,604)</u>		<u>(979,747)</u>
CAPITAL ASSETS, NET	<u>\$ 1,620,743</u>	<u>\$ (59,604)</u>	<u>\$ 0</u>	<u>\$ 1,561,139</u>

FONDA, ISLAND & BRIGGS LAKE  
JOINT WATER AUTHORITY  
NOTES OF FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 8 - CAPITAL ASSETS (continued)

Depreciation is computed using the straight line method. Useful lives of the proprietary assets are as follows:

1. Buildings	40 years
2. Machinery and equipment	5 - 10 years
3. Office equipment	5 - 10 years
4. Services - water & sewer	5 - 10 years
5. Water Tower	40 years

NOTE 9 - RESERVED ASSETS

The amounts shown as reserved cash and cash equivalents are to be used for painting, replacement and improvement of the water system and water system components.

NOTE 10 - MANAGEMENT'S ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 11 - CONTINGENCIES

The Authority is involved in various legal actions arising in the normal course of business. In the opinion of management, such matters will not have a material effect upon the financial position of the Authority.

NOTE 12 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

FONDA, ISLAND & BRIGGS LAKE  
JOINT WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 13 - RESERVED CASH AND CASH EQUIVALENTS

The Authority Board has designated monies being held in certificates of deposit for future water system improvements. Interest on these reserved funds totaled \$1,991 for the year ended December 31, 2005.

NOTE 14 - SEWER BILLINGS

The system currently has 343 users that are billed quarterly for water service. Users are billed a minimum charge of \$ 50.00 per quarter for service.

NOTE 15 - SEGMENT INFORMATION

Selected financial information is as follows:

Operating revenue	\$	115,266
Depreciation		59,604
Working capital		189,763
Total assets		1,758,984
Total fund equity		189,763
Net income (loss)		(69,579)

SUPPLEMENTARY  
INFORMATION

FONDA, ISLAND & BRIGGS LAKE  
JOINT WATER AUTHORITY  
SCHEDULE OF OPERATIONS -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Water billings	\$	\$ 71,926	\$
Interest		2,176	
Tap-in fees		28,620	
Other income		<u>12,544</u>	
Total revenues	<u>\$ 121,120</u>	<u>\$ 115,266</u>	<u>\$ (5,854)</u>
OPERATING EXPENSES			
Advertising	\$	\$ 233	\$
Accounting		8,325	
Bank charges		483	
Billing expense		3,660	
Chemicals		4,673	
Depreciation		59,604	
Dues and subscription		414	
Engineering		20,989	
Insurance		16,366	
Legal		7,955	
Office expense		2,512	
Per diem		5,575	
Repairs and maintenance		22,530	
Taxes - payroll		1,439	
Telephone		2,296	
Utilities		7,652	
Wages - office		2,558	
Wages - system operator		16,068	
Water testing fees		<u>1,513</u>	
Total operating expenses	<u>\$ 187,602</u>	<u>\$ 184,845</u>	<u>\$ 2,757</u>

This schedule is prepared on a budgetary basis for the operating accounts of the enterprise fund and as such does not present the results of operations on the basis of generally accepted accounting principles but is presented for supplemental information.



FONDA, ISLAND & BRIGGS LAKE  
JOINT WATER AUTHORITY

COMMENTS  
AND  
RECOMMENDATIONS

FOR THE YEAR ENDED DECEMBER 31, 2005

February 20, 2006

Board of Trustees  
Fonda, Island & Briggs Lake Joint Water Authority  
P.O. Box 638  
Brighton, Michigan 48116

Honorable Board of Trustees:

In planning and performing our audit of the financial statements of the Fonda, Island & Briggs Lake Joint Water Authority for the year ended December 31, 2005, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal controls.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. Those matters are as follows:

1. COMMENT

There were instances where checks cleared the bank before the date on the check.

RECOMMENDATION

The Authority should be careful with the timing of payables.

2. COMMENT

The Authority's water billings have decreased.

RECOMMENDATION

The Authority board may wish to investigate the reasons for the billing decreases.

3. COMMENT

There was an instance where payment to a vendor was made electronically.

RECOMMENDATION

Authority needs to have a policy in place to ensure proper documentation and approval for payments are made on the Authority's behalf.

4. COMMENT

A new bank account was opened up electronically.

RECOMMENDATION

The Authority Board needs to approve the opening of new bank accounts.

This letter does not affect our report dated February 20, 2006 on the financial statements of Fonda, Island & Briggs Lake Joint Water Authority.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and recommendations with various Authority personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

*Pfeffer, Hanniford & Palka, P.C.*

PFEFFER, HANNIFORD & PALKA  
Certified Public Accountants